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E.O. 12958: DECL: 01/01/2018

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SUBJECT: UPDATE ON VENEZUELAN CEMENT NATIONALIZATIONS

REF: CARACAS 494

Classified By: Acting Economic Counselor Shawn Flatt for reasons 1.5
(b) and (d).

11. (C) Summary: Negotiations to nationalize the "Big Three" cement companies in Venezuela are proceeding slowly (reftel.)
The BRV is following the model they used to nationalize the oil industry right down to using the same PDVSA negotiating team. The BRV and PDVSA lack in-house expertise in the cement sector so they have asked the companies to provide their own assessment of the value of their assets. While Holcim Venezuela is willing to accept a minority stake, Cemex reportedly will only consider an all or nothing deal with the BRV. End Summary.

12. (C) Despite Energy Minister and PDVSA President Rafael Ramirez' claims that negotiations with Holcim, Cemex and Lafarge have "advanced substantially", Holcim Venezuela Executive Director Louis Beauchemin (strictly protect throughout) told Econoffs on April 30 that negotiations are proceeding very slowly. He stated the only written communication he has received from the BRV is a two page laundry list of questions on Holcim's assets and operations. He noted the BRV analyst sent to evaluate Holcim's assets was a petroleum engineer who knew nothing about cement. Beauchemin said Venezuelan Petroleum Corporation (CVP) President Eulogio Del Pino has been tasked with heading the BRV negotiating team.

13. (C) Swiss-owned Holcim is the largest cement manufacturer in Latin America and would like to maintain a foot-hold in Venezuela. Beauchemin reported they would be willing to accept a minority stake if the BRV gives them a fair price for their shares. If they cannot reach an agreement on price, he stated he is actively consulting legal counsel regarding Holcim's international arbitration options.

14. (C) On May 5 the Mexican Ambassador to Venezuela told Econoffs that unlike Holcim, Cemex is not interested in a power-sharing relationship with the BRV. Industry sources told Beauchemin this is due to a bad experience Cemex had in Indonesia with a partially government-owned venture. Beauchemin also stated BRV negotiators asked him if Holcim would be interested in a 40 percent stake in a joint venture if the venture contained some of his competitor's assets.

15. (C) The Mexican Ambassador complained that Cemex is still

waiting for serious negotiations to begin. He expressed concern that once talks begin in earnest, the BRV will demand large sums from Cemex for environmental damages as well as inflated compensation for retired workers. He speculated if the BRV decides to buy Cemex out, Cemex might actually end up owing the BRV money.

¶6. (C) The BRV has a poor track record in the cement industry. Government-owned Cemento Andino ("forcefully acquired" from its Colombian owners) is not operating anywhere near capacity and Beauchemin reported BRV officials admitted to him that Cemento Andino's union-run sales and marketing office is a failure. The BRV negotiating team subsequently indicated to Beauchemin they want Holcim staff to stay on to manage sales and marketing as well as provide technical expertise. Additionally, the Mexican Ambassador noted that Cemex typically builds a cement plant in a year and a half. The BRV has been trying to construct a plant with Iran since 2004. The plant might open in December 2008 and the BRV claims it will supply 17 percent of Venezuela's cement needs.

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